Goldklang Group CPAs PC

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Independent Auditor's Report

To the Board of Directors of
Presidential Owners, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Presidential Owners, Inc., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, owners' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Presidential Owners, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Goldklang Group CPAs, P.C.

Reston, Virginia
October 13, 2021

PRESIDENTIAL OWNERS, INC.
BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and Cash Equivalents	$ 128,672	$ 104,694
Cooperative Assessments Receivable	20,523	12,986
Prepaid Expenses	6,375	4,615
Land, Building and Improvements - Net	1,314,557	1,369,109
Total Assets	$ 1,470,127	$ 1,491,404
LIABILITIES AND OWNERS' EQUITY		
Accounts Payable	$ 13,071	$ 33,016
Accrued Real Estate Taxes	32,941	30,923
Prepaid Cooperative Assessments	7,061	1,433
Total Liabilities	$ 53,073	$ 65,372
Ownership Contracts	$ 1,060,000	$ 1,060,000
Replacement Reserves	475,888	351,843
Retained Earnings (Deficit)	(118,834)	14,189
Total Owners' Equity	$ 1,417,054	$ 1,426,032
Total Liabilities and Owners' Equity	$ 1,470,127	$ 1,491,404

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
INCOME:		
Cooperative Assessments	$ 593,034	$ 563,095
Non-Resident Fees	12,775	12,348
Other	3,308	921
Total Income	$ 609,117	$ 576,364
EXPENSES:		
Reimbursed Payroll and Related Costs	$ 100,363	$ 90,159
Management	27,096	26,316
Insurance	19,135	18,969
Legal, Audit and Tax Preparation	111,745	40,980
Administrative	12,147	18,060
Electricity	25,837	29,277
Gas	19,316	20,762
Water and Sewer	16,375	17,669
Trash Removal	15,056	12,862
Elevator	15,620	17,578
HVAC Maintenance	25,423	24,612
Repairs and Maintenance	48,684	143,462
Real Estate Taxes	126,495	119,297
Depreciation	54,553	56,296
Income Taxes	250	250
Total Expenses	$ 618,095	$ 636,549
Net Income (Loss) before Contribution to Reserves	$ (8,978)	$ (60,185)
Contribution to Reserves	(124,045)	(73,251)
Net Income (Loss)	$ (133,023)	$ (133,436)

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF OWNERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Ownership Contracts	Replacement Reserves	Retained Earnings (Deficit)	Total Owners' Equity
Balance as of December 31, 2018	$ 1,060,000	$ 278,592	$ 147,625	$ 1,486,217
Addition:				
Contribution to Reserves		73,251		73,251
Deduction:				
Net Loss			(133,436)	(133,436)
Balance as of December 31, 2019	$ 1,060,000	$ 351,843	$ 14,189	$ 1,426,032
Addition:				
Contribution to Reserves		124,045		124,045
Deduction:				
Net Loss			(133,023)	(133,023)
Balance as of December 31, 2020	$ 1,060,000	$ 475,888	$ (118,834)	$ 1,417,054

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ (133,023)	$ (133,436)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	54,553	56,296
Decrease (Increase) in:		
Cooperative Assessments Receivable	(7,537)	(6,459)
Prepaid Expenses	(1,760)	431
Increase (Decrease) in:		
Accounts Payable	(19,946)	17,034
Accrued Real Estate Taxes	2,018	(1,463)
Prepaid Cooperative Assessments	5,628	(2,862)
Net Cash Flows from Operating Activities	$ (100,067)	$ (70,459)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Received from Cooperative Assessments (Reserves)	$ 124,045	$ 73,251
Disbursed for Fixed Assets	-	(7,510)
Net Cash Flows from Investing Activities	$ 124,045	$ 65,741
Net Change in Cash and Cash Equivalents	$ 23,978	$ (4,718)
Cash and Cash Equivalents at Beginning of Year	104,694	109,412
Cash and Cash Equivalents at End of Year	$ 128,672	$ 104,694
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Income Taxes	$ 635	$ 250

See Accompanying Notes to Financial Statements

NOTE 1 - NATURE OF OPERATIONS:

The Cooperative is organized under the laws of the State of Delaware for the purposes of maintaining and preserving the common property of the Cooperative. The Cooperative is located at 1026 16th Street, N.W., Washington, D.C. and consists of 41 residential and three commercial units. The Board of Directors administers the Cooperative's operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

B) Cooperative Assessments - Cooperative members are subject to annual assessments to provide funds for the Cooperative's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Cooperative's performance obligations related to its assessments are satisfied over time on a daily pro-rata basis using the input method. Cooperative assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from members. The Cooperative's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Cooperative for use in the succeeding year. The Cooperative treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Cooperative's control.

C) Depreciation - The building, improvements and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E) Cash Equivalents - For purposes of the statement of cash flows, the Cooperative considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

NOTE 3 - REPLACEMENT RESERVES:

The Cooperative's governing documents do not require that funds be accumulated for future major repairs and replacements. However, the Cooperative has elected to set aside funds for replacement reserves. Accumulated funds are generally not available for expenditures for normal operations.

The Cooperative had a reserve study conducted by PM+ Reserves in 2016. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends a contribution of $363,210 plus an interest contribution of $22,900 to the reserves for 2020. For 2020, the Cooperative budgeted to contribute $124,045 to reserves.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and replacement of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed the Board of Directors, on behalf of the Cooperative, may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2020 and 2019, the Cooperative had designated $475,888 and $351,843, respectively, for replacement reserves. The replacement reserves are not fully funded by cash and cash equivalents as of December 31, 2020 and 2019.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Cooperative files as a non-exempt cooperative under subchapter T (IRC Sections 1381 - 1388). The Cooperative's income is allocated between patronage and non-patronage income. Non-patronage income, such as rental income and other third party income is considered taxable at the normal corporate rates. Income derived from shareholders and interest income is considered patronage income. Any excess patronage income is returned to shareholders through patronage dividends.

The Cooperative’s policy is to recognize any tax penalties and interest as an expense when incurred. The Cooperative’s federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the District of Columbia.

NOTE 5 - CASH AND CASH EQUIVALENTS:

As of December 31, 2020, the Cooperative maintained its funds of $128,672 in a SunTrust checking account.

NOTE 6 - COOPERATIVE ASSESSMENTS RECEIVABLE:

At December 31, 2020 and 2019, the Cooperative had delinquent assessments of $20,523 and $12,986, respectively. It is the opinion of the board of directors that the Cooperative will ultimately prevail against members with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary.

NOTE 7 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION:

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Cooperatives, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Cooperative adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning retained earnings balance. The Cooperative applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment income, as previously described.

The adoption of the new revenue recognition guidance resulted in no changes to balances as of January 1, 2019.

NOTE 8 - LAND, BUILDING AND IMPROVEMENTS - NET:

The land, building and improvements are carried at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of seven to fifty years. Depreciation expense was $54,553 and $56,296 for 2020 and 2019, respectively.

NOTE 8 - LAND, BUILDING AND IMPROVEMENTS - NET: (CONTINUED)

	2020	2019
Land	$ 584,113	$ 584,113
Building and Improvements	2,027,846	2,027,846
Less: Accumulated Depreciation	(1,297,402)	(1,242,850)
Fixed Assets - Net	$ 1,314,557	$ 1,369,109

NOTE 9 - MANAGEMENT PAYROLL REIMBURSEMENTS:

The Cooperative is professionally managed by William C. Smith & Company, Inc. (WCS). WCS utilizes a central management payroll system, whereby payroll returns were filed under the management agent's name and federal identification number. In addition to the payment of management fees, the Cooperative reimbursed WCS for wages, payroll taxes, workers' compensation and health insurance for employees that performed work for the Cooperative during 2020 and 2019.

NOTE 10 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through October 13, 2021, the date the financial statements were available to be issued.

Subsequent to year-end, the Cooperative approved $25,000 for drain line replacement to be funded by replacement reserves.

PRESIDENTIAL OWNERS, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2020
(UNAUDITED)

The Cooperative had a replacement reserve study conducted during 2016 by PM+ Reserves to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The estimated replacement costs presented below do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement; however, the Cooperative's replacement reserve study does take inflation into consideration when evaluating future expenditures and recommended contributions to reserves.

The following has been extracted from the Cooperative's replacement reserve study and presents significant information about the components of common property.

Component	2016 Estimated Remaining Useful Life (Years)	2016 Estimated Replacement Cost
Roofing	2-22	$ 99,500
Façade	2-13	134,000
Windows	30	246,260
Doors	10-30	50,900
Balconies	2	46,400
Corridors/Lobby	5-8	18,260
HVAC	5-9	1,085,420
Plumbing	1-59	220,000
Electrical	15	35,000
Elevator	2-9	517,000
Fire Protection/Security	5-24	83,700
Washers & Dryers	4	9,000
Pavements	1-8	4,500
Annual Allowance	1	1,000